

**JOINT CONSTRUCTION CODE AUTHORITY**

**ISABELLA COUNTY**

**STATE OF MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED MARCH 31, 2008**

# JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY

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# **Introductory Section**

**JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY  
BOARD OFFICIALS  
YEAR ENDED MARCH 31, 2008**

**CHAIRPERSON**

Jim Faber

**TRUSTEES**

Darrell Metcalf

Lynne Wyatt

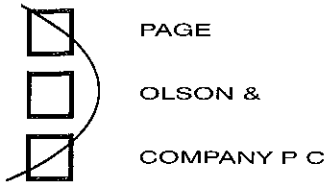
**TREASURER**

Shirlee Van Bonn

**SECRETARY**

Dan Shaw

# **Financial Section**



## INDEPENDENT AUDITOR'S REPORT

July 11, 2008

Authority Board  
Joint Construction Code Authority  
Townships of Fremont, Rolland,  
Nottawa, Deerfield, and Sherman  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Joint Construction Code Authority, Isabella County, State of Michigan as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Joint Construction Code Authority, Michigan's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Joint Construction Code Authority, Isabella County, State of Michigan, as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 9 through 11 and 27, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Such information relative to March 31, 2008 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our communication with those charged with governance is included herein and forms a part of this report.

*Page, Olson & Company* 7

# **JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2008**

As management of Joint Construction Code Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the financial report. All amounts, unless otherwise indicated, are presented in whole dollars.

## **Financial Highlights**

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$721 (net assets). Of this amount, \$721 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The Authority's total net assets decreased by \$4,827. This decrease is attributable to a \$4,971 loss from operating activities.

Therefore, at the end of the current fiscal year, unreserved fund balance for the special revenue fund was \$721 or approximately 1 percent of total special revenue fund expenditures.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Authority operations are classified as governmental-type activities.

The government wide financial statements can be found on pages 15 and 16 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Authority is a Special Revenue Fund.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation when necessary to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains only one fund. It is classified as a Special Revenue fund, and it is also the Authority's operating fund.

The Authority adopts an annual appropriated budget for the special revenue fund. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with the Budget.

The basic governmental fund financial statements can be found on pages 17 and 18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 19 of this report.

### Government Wide Financial Analysis

The following summaries provide a perspective of the financial information of the Authority as a whole:

Joint Construction Code Authority's Net Assets.	
	2007
Current and other assets	\$ 2,518
Other liabilities	1,797
Net assets:	
Restricted	-
Unrestricted	721
Total net assets	\$ 721

The Authority currently has no capital assets.



## Joint Construction Code Authority's Changes in Net Assets.

	2007
Revenues:	
Program revenues:	
Charges for Services	\$ 62,937
Other	144
Total Revenues	63,081
Expenses:	
Program Expenses	67,908
Total Expenses	67,908
Decrease in net assets	(4,827)
Net Assets - April 1	5,548
Net Assets - March 31	\$ 721

As noted earlier, net assets may serve over time as a useful indicator of a Authority's financial position. In the case of JCCA, assets exceeded liabilities by \$721 at the close of the most recent fiscal year.

The remaining balance of unrestricted net assets (\$721) may be used to meet the Authority's ongoing obligations.

The Authority's net assets decreased by \$4,827 during the current fiscal year. Much of this decrease can be contributed to a \$4,971 loss from operating activities.

**Governmental funds.** The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The fund balance of the Authority's special revenue fund decreased by \$4,827 during the current fiscal year. The key element of this decrease can be attributed to expenditures in excess of operating revenues.

### Special Revenue Fund Budgetary Highlights

The annual budget was approved by the Authority Board in March of 2007 as required by the State of Michigan, and was amended by the Board throughout the fiscal year of 2007-2008.

The budget was amended once during the fiscal year. The majority of the budget variances were due to converting to the accrual method of accounting.

### Economic Factors

Economic factors will certainly change and reflect the direction that the community has taken. The Board of the JCCA are committed to working together to get the most out of every dollar and serve in the most responsible manner possible.

### Requests for information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the JCCA.

# **Basic Financial Statements**

**JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
YEAR ENDED MARCH 31, 2008**

	<b>Statement I</b>
	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 2,518
Total Current Assets	2,518
Total Assets	<u>\$ 2,518</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 140
Salaries Payable	1,422
Accrued Liabilities	<u>235</u>
Total Current Liabilities	1,797
<b>Net Assets</b>	
Unrestricted	<u>721</u>
Total Net Assets	<u>\$ 721</u>
Total Liabilities and Net Assets	<u>\$ 2,518</u>

The notes to the financial statements are an integral part of this statement.

**JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY  
GOVERNMENT WIDE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008**

			<b>Statement II</b>
			Net (Expense) Revenue and Changes in Net
			Assets
			Governmental
			Activities
<b>Functions / Programs</b>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	
Primary Government:			
Governmental Activities			
Permits	\$ 67,908	\$ 62,937	\$ (4,971)
Total Governmental Activities	\$ 67,908	\$ 62,937	(4,971)
<b>General Revenues:</b>			
Interest and Dividends			24
Other Revenue			<u>120</u>
Total General Revenues			<u>144</u>
<b>Changes in Net Assets</b>			(4,827)
<b>Net Assets - April 1</b>			<u>5,548</u>
<b>Net Assets - March 31</b>			<u><u>\$ 721</u></u>

The notes to the financial statements are an integral part of this statement.

**JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY  
BALANCE SHEET, GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2008**

**Statement III**

	<u>Special Revenue Fund</u>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 2,518
 TOTAL ASSETS	 \$ 2,518
 <b><u>LIABILITIES AND FUND BALANCE</u></b>	
<b><u>LIABILITIES</u></b>	
Accounts Payable	\$ 140
Salaries Payable	1,422
Accrued Liabilities	<u>235</u>
 TOTAL LIABILITIES	 1,797
 <b><u>FUND BALANCE</u></b>	
Unreserved - Undesignated, Reported in:	
Special Revenue Funds	<u>721</u>
 TOTAL FUND BALANCE	 <u>721</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>2,518</u>

There are no reconciling items between the Governmental Fund Balance Sheet presented in the Fund Financial Statements and amounts reported in the Government Wide Statement of Net Assets.

The notes to the financial statements are an integral part of this statement.

**JOINT CONSTRUCTION CODE AUTHORITY, ISABELLA COUNTY**  
**STATEMENT OF REVENUE, EXPENDITURES**  
**CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2008**

**STATEMENT IV**  
Special Revenue Fund

<b>REVENUE</b>	
Charges for Services	\$ 62,937
Interest Earnings	24
Other Revenue	<u>120</u>
 TOTAL REVENUE	 63,081
 <b>EXPENDITURES</b>	
Current Operations	
General	
Government	<u>67,908</u>
 TOTAL EXPENDITURES	 <u>67,908</u>
 EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	    (4,827)
 FUND BALANCE - APRIL 1	  <u>5,548</u>
 FUND BALANCE - MARCH 31	  <u>\$ 721</u>

There are no reconciling items between the Statement of Revenues, Expenditures, and Changes in Fund Balance presented in the Fund Financial Statements and amounts reported as Governmental Activities in the Government Wide Statements.

The notes to the financial statements are an integral part of this statement.

# **JOINT CONSTRUCTION CODE AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **MARCH 31, 2008**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Joint Construction Code Authority have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

##### **A. Reporting Entity**

The five local units of government participating in the Joint Construction Code Authority as of March 31, 2008 include Freemont, Rolland, Nottawa, Deerfield, and Sherman Townships. Each has adopted similar Building and Construction Codes. The Joint Construction Code Authority is established as a distinct and separate entity. This is set up specifically to administer and enforce the building and construction codes adopted by each of the participating local units of governments; to set, collect and deposit fees for permits and inspections; and to hire sufficient building inspectors.

**Component units.** In evaluating how to define the government for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set for by the Governmental Accounting Standards Board (GASB) Statement 14. Generally, component units are legally separate organizations for which the elected officials of the Township are financially accountable. Financial accountability is determined by the Township's ability to impose its will on the component unit, as well as the unit's significance regarding the operational and financial relationship with the Township. Based upon the application of this criteria, we found no other units that should be classified as component units.

##### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**JOINT CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The only fund the Authority maintains is a *Special Revenue Fund* to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. It is the general operating fund of the Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.



**JOINT CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**E. Assets, liabilities, and net assets or equity**

**1) Deposits and Investments** – The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair value. State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

As of March 31, 2008 the Authority has no investments.

**2) Receivables and Payables** – In general, the Authority's accounts payable consist of wages earned and related payroll liabilities that are payable at year end.

**3) Restricted Assets** – Certain resources of the Authority may be classified as restricted on the statement of net assets because their use is limited.

**4) Compensated Absences (Vacation and Sick Leave)** – The Authority provides no compensated absences.

**5) Post Employment Benefits** - The Authority provides no post-employment benefits to past employees.

**6) Long-term Obligations** – The Authority has no long-term obligations.

**7) Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

**JOINT CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgets and Budgetary accounting**

Annual budgets are adopted for the special revenue fund. The budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control adopted by the governing body is the line item level for all funds.

The Authority does not record encumbrances in accounting during the year. Appropriations lapse at the end of the fiscal year and amounts are re-appropriated for expenditures to be incurred in the next fiscal year.

**B. Excess of expenditures over appropriations in budgetary funds**

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Disclosure of all unfavorable appropriation variances based on the level of control exercised over the adopted budget is as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund:			
Board Publishing	\$ 283	\$ 322	\$ 39
Inspector Wages	40,309	41,300	991
FICA Expense	2,943	3,019	76
Supplies	988	1,168	180
Miscellaneous	-	248	248

\$1,106 of the \$1,534 total budget excesses were due to not fully anticipating the effects of GASB 34 adjustments that would be required.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Authority Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. The Authority's deposits are in accordance with statutory authority.

At year-end, the carrying value of cash and cash equivalents held by the Authority is as follows:

	<u>Primary Government</u>
Petty Cash / Cash on Hand	\$ 1,934
Bank Deposits (CD, Checking, Savings)	584
Grand Totals - Cash and Cash Equivalents	<u>\$ 2,518</u>

**JOINT CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)**

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At year-end, the carrying amount of the Authority's deposits with financial institutions was \$584 and the bank balance was \$7,044. Of the bank balance \$7,044 was covered by federal depository insurance and \$0 was uninsured and uncollateralized. All of the book balance \$584 was covered by federal depository insurance.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations. As of year end, the Authority did not have any investments that would be subject to rating.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Board approved policy.

**NOTE 4 – LOCAL UNIT'S INTEREST IN JOINT CONSTRUCTION CODE AUTHORITY**

The local unit's interest in Joint Construction Code Authority is determined by the ratio of building permits issued for the preceding fiscal year in each local unit compared with the total building permits issued in all local units.

For the Joint Construction Code Authority year ended March 31, 2008, Fremont, Rolland, Nottawa, Deerfield and Sherman's interest in JCCA based on the above formula is 15%, 14%, 29%, 22% and 20% respectively.

Each local unit is also responsible for its share of the budget, which may not be covered by fees collected by the Authority. Such proportionate share shall be determined by the ratio of permits issued within each local unit compared with the building permits issued in all local units for the fiscal year covered by said budget.

**JOINT CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 5 – CONTINGENCIES**

The Authority is subject to various legal proceedings arising in the course of providing services to the public. However, in the opinion of the JCCA's attorney and management, the resolution of these matters may not have a material, effect if any, on the financial condition of the Joint Construction Code Authority.

**NOTE 6 – RETIREMENT BENEFITS**

The Authority does not provide pension benefits to its employees.

**NOTE 7 – DEFERRED COMPENSATION PLAN**

The Authority does not have a deferred compensation plan.

**NOTE 8 – RESTATEMENTS**

An adjustment was made to restate the Net Assets at 3/31/2007 as follows for the effect of accruals:

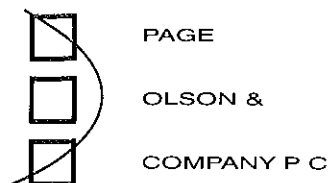
<b>Net Assets - March 31, 2007</b>	<b>\$ 5,435</b>
Prior Period Restatement:	
Accounts Payable	(98)
Accrued Liabilities	(590)
Revenues	<u>801</u>
 <b>Adjusted Net Assets - April 1, 2007</b>	 <b><u>\$ 5,548</u></b>

# **Required Supplemental Information**

**JOINT CONSTRUCTION CODE AUTHORITY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit A**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Building Permits	\$ 41,510	\$ 32,050	\$ 32,050	\$ -
Plumbing Permits	8,300	5,526	5,605	(79)
Mechanical Permits	13,200	9,986	9,906	80
Electrical Permits	10,200	9,142	10,710	(1,568)
Clerical Fees	5,900	4,550	4,666	(116)
Interest	45	23	24	(1)
Other Revenue	500	259	119	140
<b>TOTAL REVENUE</b>	<b>79,655</b>	<b>61,536</b>	<b>63,080</b>	<b>(1,544)</b>
<b>EXPENDITURES</b>				
Board				
Board Wages	2,400	2,540	2,540	-
Treasurer	960	960	960	-
Insurance	5,200	5,108	5,108	-
Accounting/Legal	1,800	2,000	2,000	-
Board FICA	160	170	170	-
Publishing	40	283	322	(39)
Inspector				
Wages	56,600	40,309	41,300	(991)
Education & Training	1,200	1,576	1,576	-
Member Dues & Licensing	800	328	328	-
Inspector FICA	4,330	2,943	3,019	(76)
Workman's Compensation	1,660	1,659	1,659	-
Inspector Travel	1,100	964	964	-
Board of Review				
Board of Review Wages	200	-	-	-
Supplies	25	-	-	-
Board of Review Travel	25	-	-	-
Office				
Rent	6,000	6,000	6,000	-
Phone	640	545	545	-
Supplies and Postage	980	988	1,168	(180)
Miscellaneous	-	-	248	(248)
<b>TOTAL EXPENDITURES</b>	<b>84,120</b>	<b>66,373</b>	<b>67,907</b>	<b>(1,534)</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(4,465)</b>	<b>(4,837)</b>	<b>(4,827)</b>	<b>(10)</b>
<b>Fund Balance - Beginning</b>	<b>5,548</b>	<b>5,548</b>	<b>5,548</b>	<b>5,548</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,083</b>	<b>\$ 711</b>	<b>\$ 721</b>	<b>\$ 5,538</b>



July 11, 2008

Authority Board  
Joint Construction Code Authority  
Township of Fremont, Rolland,  
Nottawa, Deerfield, and Sherman  
Isabella County, Michigan

This letter is intended to inform the Board of the Joint Construction Code Authority about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board.

The following summarizes various matters that must be communicated to you under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

#### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

Our audit of the financial statements of the Joint Construction Code Authority for the year ended March 31, 2008 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you through our verbal communications.

#### **Significant Audit Findings**

##### **Qualitative Aspects of Accounting Practices**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. The Authority has chosen to present modified accrual fund statements as well as accrual basis government wide statements in full compliance with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and local Governments, in 2008. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note 8 of the Notes to the Financial Statements. The Authority did not adopt any other significant new accounting policies nor have there been any changes in existing significant accounting policies during the year ended March 31, 2008, which should be brought to your attention.

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We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. In the current year there were no sensitive or material estimate(s) affecting the financial statements.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

#### **Audit Adjustments**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All adjustments proposed by us related to converting financial information to adjust for the conversion of cash basis to a basis of accounting applicable for compliance with GASB 34.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated July 11, 2008.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



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### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Communication of Significant Deficiencies and Material Weaknesses**

In planning and performing our audit of the financial statements of the Joint Construction Code Authority, for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management overrides of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

#### **Significant Deficiencies**

##### **Segregation of Duties (Repeated Comment)**

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

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### **Significant Deficiencies (Continued)**

#### Authority's Response

The Authority is aware of this control deficiency, however it is not economically feasible to achieve textbook segregation of duties. The Authority's Board, however, performs oversight duties of all transactions, including approval of disbursements and will continue this oversight to ensure that all transactions are valid and properly recorded in the General Ledger.

#### Budget Requirements

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. It was noted during our audit that the Authority incurred expenditures in excess of the amount appropriated as noted in Note # 2 in the Notes to the Financial Statements.

#### Authority's Response

The Authority will take great care in monitoring the budget on a monthly basis to ensure that expenditures do not exceed appropriations as required by P.A. 2 of 1968, as amended. As noted most of the overages were due to not fully anticipating the effects accrual adjustments.

#### Permits (Repeated Comment with Modification)

During testing of permits it was noted that there were instances where clerical errors in permit calculations resulted in the Authority not collecting revenues that were due to them. Greater care should be taken to ensure that all amounts collected are properly reflected on the individual line items of the permit and all amounts due are collected.

It was also noted that there were large and small gaps in the pre-numbered permit sequence for all permit types except the building permits due to the permits not being used in sequential order. It is recommended that the new system developed to account for the location and status of each permit in a timely and efficient manner be monitored to ensure its effectiveness.

#### Authority's Response

The Authority intends to use greater care when preparing and calculating permits to ensure that all amounts due are collected and recorded. The Authority also intends to monitor the procedures currently established for the use of permits and to modify the procedures as necessary to ensure that all permits are readily accounted for at all times.

#### Internal Control Structure and Risk Assessment

We have noted that the organization has not developed or implemented a fraud risk management program. Management and each member of the Authority's Board should be familiar with the types of improprieties that might occur and be alert for any indicator of irregularity. It is important that management understand that responsibility for establishing, maintaining and evaluating an effective system of internal controls is that of management's.

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## **Significant Deficiencies (Continued)**

### **Internal Control Structure and Risk Assessment (Continued)**

Internal controls are essential for providing reliable financial information and for safeguarding, managing, and accounting for the assets of an entity. The external auditor is required to obtain an understanding of the entity's internal control environment as part of the audit of the financial statements, however, the focus is on the fair presentation of the financial statements, not the effectiveness of internal controls. Therefore, the external auditor cannot be considered a part of the entity's internal control system and is no substitute for management's ongoing review and evaluation.

#### **Authority's Response**

Management understands that the responsibility for establishing, maintaining and evaluating an effective system of internal controls is management's and not the auditor's. Management will continue to review and evaluate the policies and procedures set forth to ensure that reliable financial information is provided and assets are properly safeguarded, managed, and accounted for. In addition, Management will document such review and monitoring.

A Material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

### **Material Weaknesses**

#### **Financial Accounting and Reporting (Repeated Comment)**

Management relies on the Authority's auditors to prepare the formal financial statements at fiscal year-end. Therefore, as part of our engagement to audit the financial statements, we draft the financial statements and the related footnotes for approval by management and the board. This is a conscious and practical approach to preparing the financial statements since the Authority has determined that the costs to establish internal controls over financial reporting and to develop the skills and knowledge of its personnel in preparing the financial statements is greater than the risk of misstatements occurring in the financial statements. However, as a result of recently issued professional standards, this situation meets the definition of a material weakness in internal control.

We considered this internal control deficiency in planning the scope of our audit procedures and believe that we have appropriately addressed the risk of any misstatements in the audited financial statements by specifically reviewing the audited financial statements with management.

Therefore, due to the relative cost to eliminate the internal control deficiency over financial reporting related to the risks involved and considering the audit procedures performed to address the risk of misstatements in the audited financial statements, we do not recommend any actions to address this weakness at this time. However, we do recommend that management routinely review the internal controls in place to prepare financial reports to ensure accurate information is provided.

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**Material Weaknesses (Continued)**

Financial Accounting and Reporting (Continued)

Authority's Response

The Authority understands that the Financial Statements of the Authority are the responsibility of management. Furthermore, when assessing the costs associated with establishing controls over formal financial reporting, the Authority has decided to rely on its auditors for preparation of the financial statements. The Authority will routinely review the internal controls in place to prepare financial reports to ensure accurate information is provided.

We did not audit the Authority's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of the Joint Construction Code Authority and Federal and State agencies and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Joint Construction Code Authority personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

*Page, Olson & Company*